

# PERAC AUDIT REPORT



## Fall River Contributory Retirement System

JAN. 1, 2002 - DEC. 31, 2004 / PERAC 04: 10-035-20



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# PERAC

COMMONWEALTH OF MASSACHUSETTS | PUBLIC EMPLOYEE RETIREMENT ADMINISTRATION COMMISSION

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JOSEPH E. CONNARTON, *Executive Director*

September 29, 2006

The Public Employee Retirement Administration Commission has completed an examination of the **Fall River** Retirement System pursuant to G.L. c. 32, s. 21. The examination covered the period from January 1, **2002** to December 31, **2004**. This audit was conducted in accordance with the accounting and management standards established by the Public Employee Retirement Administration Commission in regulation 840 CMR 25.00. Additionally, all supplementary regulations approved by PERAC and on file at PERAC are listed in this report.

In our opinion, the financial records are being maintained and the management functions are being performed in conformity with the standards established by the Public Employee Retirement Administration Commission with the exception of those noted in the findings presented in this report.

In closing, I acknowledge the work of examiners Mary Dundas and Martin Feeney who conducted this examination and express appreciation to the Board of Retirement and staff for their courtesy and cooperation.

Sincerely,



Joseph E. Connarton  
Executive Director



## **Fall River Retirement System**

### **EXPLANATION OF FINDINGS AND RECOMMENDATIONS**

#### **FOR THE THREE-YEAR PERIOD ENDING DECEMBER 31, 2004**

##### **1. Cash:**

A review of bank reconciliations revealed numerous transaction errors made by the Treasurer and the bank. Similar problems with the System's accounts were noted in the last audit. In 2005, funds were withdrawn from retirement accounts and transferred into the City's Group Insurance and Collector's Depository accounts without Board authorization. At the request of the Executive Director, the funds were subsequently transferred back into the System's account. While researching these transfers, we learned that the bank has seven people listed as contacts for retirement accounts. All seven would be allowed to transfer funds into or out of retirement accounts. In addition to the Executive Director, three individuals from the City Treasurer's office, one from the Mayor's office, one apparently from the school department, and one who cannot be identified have access to the System's accounts.

##### **Recommendation:**

Pursuant to G.L. c. 32, § 23(2)(a), the City Treasurer is the custodian of the System's funds and can disburse funds only as authorized by vote of the Board. The Board must take steps to ensure that its accounts are handled in a secure manner. While the Executive Director's reconciliation of accounts uncovers errors, additional preventive controls are needed. It is further recommended that the Board write to the bank to request that the Treasurer and the Executive Director only are listed as contacts for retirement accounts.

##### **Board Response:**

In December 2005 the Board resolved this issue by providing the bank with an authorized list of contacts & instructing the bank, in writing, to remove all other names listed as contacts for the Fall River Retirement System accounts.

##### **2. Membership:**

- a. The City continues to over-withhold contributions from all employees subject to the 2% incremental deduction. This was reported in the previous audit, as well as the follow-up audit.
- b. As in the prior audit, several members were found to be contributing at rates that do not correspond to their dates of membership.
- c. This examination yielded potential problems with the inclusion and/or exclusion of certain pay types in regular compensation, particularly for employees of the water, environmental police, and school departments.

## Fall River Retirement System

### **EXPLANATION OF FINDINGS AND RECOMMENDATIONS (Continued)**

#### **FOR THE THREE-YEAR PERIOD ENDING DECEMBER 31, 2004**

- d. The City's method of paying employees at two different rates during the course of a year creates the appearance of salaries in excess of \$30,000 when, in fact, in many cases they are not. As a result, these employees are overpaying their 2% contributions.

#### **Recommendation:**

- a. The Board must instruct the City to adjust its method of calculating the 2% deduction, so that members are not overpaying.
- b. The Executive Director has begun contacting employing departments in an effort to correct members' deductions.
- c. The Board must regularly review pay types listed as subject to or not subject to retirement contributions for accuracy. A comprehensive review of compensation for employees of the aforementioned departments must begin and necessary corrections made.
- d. The Board must analyze the dual pay rate system and determine whether a different calculation must be used when determining annualized salaries for "summer hour" employees.

#### **Board Response:**

- a. Executive Director has advised City of proper method to be used in calculating the 2% deduction.
- b. After review, there were a total of 12 individuals found to be contributing an incorrect rate. All were immediately corrected in November 2005.
- c. The Executive Director has reviewed with the City the different pay types to ensure only those considered regular compensation have retirement deductions withheld. No corrections were necessary. Board reviews all new pay types prior to payment by City.
- d. The Board & City will work to resolve the 2% issue for "summer hour" employees.

#### **3. Current Retirees:**

The Board is calculating the three-year average salary from recorded deduction amounts. Since the Board does not receive detailed payroll information, the deductions cannot be verified and an incorrect average salary may be used in pension calculations.

## **Fall River Retirement System**

### **EXPLANATION OF FINDINGS AND RECOMMENDATIONS (Continued)**

#### **FOR THE THREE-YEAR PERIOD ENDING DECEMBER 31, 2004**

**Recommendation:**

The Board must receive detailed payroll information in order to ensure proper calculation of average salary. This information should be maintained in retirees' files for future reference.

**Board Response:**

The Board now receives detailed payroll information on all members that retire to verify earnings/deductions.

**4. Affidavits:**

A review of retirees' files determined that no affidavits had been mailed to retirees during the audit period. The Executive Director indicated that no affidavits had been mailed because of the lack of notary publics in the retirement office. The Executive Director indicated that affidavits would be mailed late in 2005 or early 2006.

**Recommendation:**

Pursuant to PERAC Regulation 840 CMR 15.01, "No less frequently than once every two years, each retirement board shall require each member or beneficiary who receives a pension, retirement allowance, or survivor's allowance to file with the retirement board an affidavit under the penalties of perjury ..." The Board must immediately comply with this regulation.

**Board Response:**

Affidavits were mailed in May 2006. Board intends to send affidavits every other May to ensure compliance with regulation.

**5. Minutes:**

- a. In 2005, the Board did not meet "at least once in each month" as required by G.L. c. 32, § 20(5)(a). No meeting was held in January and the May meeting was cancelled for lack of a quorum.
- b. One Board member missed 31% of meetings held in 2002. The attendance rates of two members were determined to be excessive for 2005 when their absentee rates reached 43% and 57%. One of these member's attendance was found to be an issue during the last audit.
- c. The Board does not hold Executive Sessions for the discussion of disability applications.

## **Fall River Retirement System**

### **EXPLANATION OF FINDINGS AND RECOMMENDATIONS (Continued)**

**FOR THE THREE-YEAR PERIOD ENDING DECEMBER 31, 2004**

#### **Recommendation:**

- a. The Board must comply with G.L. c. 32, § 20(5)(a) and meet at least once a month.
- b. Attendance at Board meetings is an obligation that must be fulfilled by all Board members. It is the Board's responsibility to advise members to uphold their duties to the System, and to take appropriate action with such members, when necessary.
- c. The Board must follow the proper procedures for convening an Executive session.

#### **Board Response:**

With the exception to the 2 isolated incidents (the January 2005 meeting cancelled due to snow storm, Government Center closed, & May 2005 cancelled due to lack of quorum due to an unforeseen medical emergency) the Board has always and has since met at least once a month. The Board schedules all meeting at the convenience of the majority in order to assure a quorum. Each member of the Board understands their obligation to the system and makes every effort to be available.

#### **Final Determination**

***PERAC audit staff will follow-up in six (6) months to ensure that appropriate actions have been taken regarding all findings.***

## Fall River Retirement System

### **STATEMENT OF LEDGER ASSETS AND LIABILITIES**

**FOR THE THREE-YEAR PERIOD BEGINNING JANUARY 1, 2002  
AND ENDING DECEMBER 31, 2004**

<b>FOR THE PERIOD ENDING DECEMBER 31,</b>			
<b>ASSETS</b>	<b>2004</b>	<b>2003</b>	<b>2002</b>
Cash	\$5,121,477	\$3,162,109	\$5,102,514
Short Term Investments	0	0	0
Fixed Income Securities (at book value)	0	0	76,215,393
Equities	52,350,786	48,404,153	48,333,829
Pooled Short Term Funds	0	0	0
Pooled Domestic Equity Funds	49,918,453	46,156,393	30,649,204
Pooled International Equity Funds	20,676,537	14,179,565	10,907,918
Pooled Global Equity Funds	0	0	0
Pooled Domestic Fixed Income Funds	72,337,732	81,411,888	0
Pooled International Fixed Income Funds	0	0	0
Pooled Global Fixed Income Funds	0	0	0
Pooled Alternative Investment Funds	0	0	0
Pooled Real Estate Funds	0	0	0
Pooled Domestic Balanced Funds	0	0	0
Pooled International Balanced Funds	0	0	0
PRIT Cash Fund	0	0	0
PRIT Core Fund	0	0	0
Interest Due and Accrued	0	458	1,022,651
Accounts Receivable	5,311,708	4,614,010	4,640,383
Accounts Payable	45,988	168,740	272,944
<b>TOTAL</b>	<b><u>\$205,670,705</u></b>	<b><u>\$197,759,836</u></b>	<b><u>\$176,598,948</u></b>
<b>FUND BALANCES</b>			
Annuity Savings Fund	\$56,562,827	\$53,031,375	\$50,713,938
Annuity Reserve Fund	21,433,293	21,486,667	21,160,502
Military Service Fund	30,480	6,854	6,786
Pension Fund	2,832,448	3,488,478	12,918,709
Expense Fund	0	0	0
Pension Reserve Fund	124,811,657	119,746,463	91,799,012
<b>TOTAL</b>	<b><u>\$205,670,705</u></b>	<b><u>\$197,759,836</u></b>	<b><u>\$176,598,948</u></b>



## Fall River Retirement System

### STATEMENT OF CHANGES IN FUND BALANCES

**FOR THE THREE-YEAR PERIOD BEGINNING JANUARY 1, 2002  
AND ENDING DECEMBER 31, 2004**

	Annuity Savings Fund	Annuity Reserve Fund	Pension Fund	Military Service Fund	Expense Fund	Pension Reserve Fund	Total All Funds
<b>Beginning Balance (2002)</b>	<b><u>\$53,037,427</u></b>	<b><u>\$15,717,316</u></b>	<b><u>\$20,745,748</u></b>	<b><u>\$13,450</u></b>	<b><u>\$0</u></b>	<b><u>\$117,298,979</u></b>	<b><u>\$206,812,920</u></b>
Receipts	5,807,570	535,498	10,069,665	154	960,684	(25,499,967)	<b>(8,126,396)</b>
Interfund Transfers	(7,129,525)	7,167,849	(31,506)	(6,818)	0	0	<b>0</b>
Disbursements	(1,001,534)	(2,260,161)	(17,865,197)	0	(960,684)	0	<b>(22,087,577)</b>
<b>Ending Balance (2002)</b>	<b><u>\$50,713,938</u></b>	<b><u>\$21,160,502</u></b>	<b><u>\$12,918,709</u></b>	<b><u>\$6,786</u></b>	<b><u>\$0</u></b>	<b><u>\$91,799,012</u></b>	<b><u>\$176,598,948</u></b>
Receipts	5,591,163	636,448	11,109,645	68	903,250	27,929,085	<b>46,169,659</b>
Interfund Transfers	(2,255,630)	2,260,766	(23,503)	0	0	18,366	<b>(0)</b>
Disbursements	(1,018,097)	(2,571,050)	(20,516,374)	0	(903,250)	0	<b>(25,008,771)</b>
<b>Ending Balance (2003)</b>	<b><u>\$53,031,375</u></b>	<b><u>\$21,486,667</u></b>	<b><u>\$3,488,478</u></b>	<b><u>\$6,854</u></b>	<b><u>\$0</u></b>	<b><u>\$119,746,463</u></b>	<b><u>\$197,759,836</u></b>
Receipts	5,941,082	637,948	11,781,674	23,626	872,696	13,470,576	<b>32,727,602</b>
Interfund Transfers	(1,921,749)	1,920,972	8,406,160	0	0	(8,405,382)	<b>0</b>
Disbursements	(487,880)	(2,612,294)	(20,843,863)	0	(872,696)	0	<b>(24,816,733)</b>
<b>Ending Balance (2004)</b>	<b><u>\$56,562,827</u></b>	<b><u>\$21,433,293</u></b>	<b><u>\$2,832,448</u></b>	<b><u>\$30,480</u></b>	<b><u>\$0</u></b>	<b><u>\$124,811,657</u></b>	<b><u>\$205,670,705</u></b>

# Fall River Retirement System

## STATEMENT OF RECEIPTS

**FOR THE THREE-YEAR PERIOD BEGINNING JANUARY 1, 2002  
AND ENDING DECEMBER 31, 2004**

	<b>FOR THE PERIOD ENDING DECEMBER 31,</b>		
	<b>2004</b>	<b>2003</b>	<b>2002</b>
<b>Annuity Savings Fund:</b>			
Members Deductions	\$5,145,655	\$4,882,424	\$4,930,889
Transfers from other Systems	335,835	76,664	68,699
Member Make Up Payments and Redeposits	88,761	145,064	124,670
Member Payments from Rollovers	61,302	0	0
Investment Income Credited to Member Accounts	309,529	487,012	683,312
<b>Sub Total</b>	<b><u>5,941,082</u></b>	<b><u>5,591,163</u></b>	<b><u>5,807,570</u></b>
<b>Annuity Reserve Fund:</b>			
Investment Income Credited Annuity Reserve Fund	<b><u>637,948</u></b>	<b><u>636,448</u></b>	<b><u>535,498</u></b>
<b>Pension Fund:</b>			
3 (8) (c) Reimbursements from Other Systems	174,932	162,738	133,523
Received from Commonwealth for COLA and Survivor Benefits	1,424,441	1,758,618	945,375
Pension Fund Appropriation	10,182,301	9,188,289	8,990,767
<b>Sub Total</b>	<b><u>11,781,674</u></b>	<b><u>11,109,645</u></b>	<b><u>10,069,665</u></b>
<b>Military Service Fund:</b>			
Contribution Received from Municipality on Account of Military Service	23,413	0	0
Investment Income Credited Military Service Fund	213	68	154
<b>Sub Total</b>	<b><u>23,626</u></b>	<b><u>68</u></b>	<b><u>154</u></b>
<b>Expense Fund:</b>			
Expense Fund Appropriation	0	0	0
Investment Income Credited to Expense Fund	872,696	903,250	960,684
<b>Sub Total</b>	<b><u>872,696</u></b>	<b><u>903,250</u></b>	<b><u>960,684</u></b>
<b>Pension Reserve Fund:</b>			
Federal Grant Reimbursement	329,607	333,054	364,871
Pension Reserve Appropriation	0	14,814	14,814
Interest Not Refunded	6,040	15,700	10,804
Miscellaneous Income	16,671	54,547	0
Excess Investment Income	13,118,258	27,510,970	(25,890,457)
<b>Sub Total</b>	<b><u>13,470,576</u></b>	<b><u>27,929,085</u></b>	<b><u>(25,499,967)</u></b>
<b>TOTAL RECEIPTS</b>	<b><u>\$32,727,602</u></b>	<b><u>\$46,169,659</u></b>	<b><u>(\$8,126,396)</u></b>

# Fall River Retirement System

## STATEMENT OF DISBURSEMENTS

**FOR THE THREE-YEAR PERIOD BEGINNING JANUARY 1, 2002  
AND ENDING DECEMBER 31, 2004**

<b>FOR THE PERIOD ENDING DECEMBER 31,</b>			
<b>Annuity Savings Fund:</b>	<b>2004</b>	<b>2003</b>	<b>2002</b>
Refunds to Members	\$304,124	\$667,338	\$471,034
Transfers to other Systems	<u>183,756</u>	<u>350,759</u>	<u>530,500</u>
<b>Sub Total</b>	<b><u>487,880</u></b>	<b><u>1,018,097</u></b>	<b><u>1,001,534</u></b>
<b>Annuity Reserve Fund:</b>			
Annuities Paid	2,547,506	2,459,243	2,171,431
Option B Refunds	<u>64,787</u>	<u>111,807</u>	<u>88,731</u>
<b>Sub Total</b>	<b><u>2,612,294</u></b>	<b><u>2,571,050</u></b>	<b><u>2,260,161</u></b>
<b>Pension Fund:</b>			
Pensions Paid			
Regular Pension Payments	11,803,328	11,364,174	9,936,712
Survivorship Payments	1,313,587	1,164,677	1,126,765
Ordinary Disability Payments	444,483	406,052	376,031
Accidental Disability Payments	4,502,030	4,445,253	4,260,634
Accidental Death Payments	1,916,730	1,889,374	1,762,426
Section 101 Benefits	234,678	218,428	210,132
3 (8)(c) Reimbursements to Other Systems	629,029	1,028,415	192,498
State Reimbursable COLA's Paid	0	0	0
Chapter 389 Beneficiary Increase Paid	<u>0</u>	<u>0</u>	<u>0</u>
<b>Sub Total</b>	<b><u>20,843,863</u></b>	<b><u>20,516,374</u></b>	<b><u>17,865,197</u></b>
<b>Military Service Fund:</b>			
Return to Municipality for Members Who Withdrew Their Funds	<u>0</u>	<u>0</u>	<u>0</u>
<b>Expense Fund:</b>			
Board Member Stipend	15,000	15,000	15,000
Salaries	181,424	169,336	165,904
Mgt Fees not Charged to Inv Income	499,033	578,257	635,240
Custodial Fees	40,535	68,782	77,232
Investment Consultant Fees	70,000	2,917	0
Legal Expenses	12,000	12,000	12,000
Medical Expenses	17,066	0	0
Fiduciary Insurance	15,131	7,140	0
Service Contracts	12,499	18,936	0
Rent Expense	0	0	0
Administrative Expenses	6,412	28,612	47,961
Furniture & Equipment	772	786	0
Travel	<u>2,824</u>	<u>1,484</u>	<u>7,346</u>
<b>Sub Total</b>	<b><u>872,696</u></b>	<b><u>903,250</u></b>	<b><u>960,684</u></b>
<b>TOTAL DISBURSEMENTS</b>	<b><u>\$24,816,733</u></b>	<b><u>\$25,008,771</u></b>	<b><u>\$22,087,577</u></b>

# Fall River Retirement System

## INVESTMENT INCOME

**FOR THE THREE-YEAR PERIOD BEGINNING JANUARY 1, 2002  
AND ENDING DECEMBER 31, 2004**

	FOR THE PERIOD ENDING DECEMBER 31,		
	2004	2003	2002
<b>Investment Income Received From:</b>			
Cash	14,293.20	19,960.99	50,952.65
Short Term Investments	0	0	0
Fixed Income Securities	0	4,407,476	6,236,003
Equities	884,527	726,986	653,767
Pooled or Mutual Funds	<u>3,680,320</u>	<u>1,319,769</u>	<u>729,048</u>
Commission Recapture	<u>11,819</u>	<u>28,626</u>	<u>25,241</u>
<b>TOTAL INVESTMENT INCOME</b>	<b><u>4,590,958</u></b>	<b><u>6,502,818</u></b>	<b><u>7,695,012</u></b>
<b>Plus:</b>			
Increase in Amortization of Fixed Income Securities	0	0	0
Realized Gains	4,501,919	5,603,808	2,694,831
Unrealized Gains	19,254,826	33,084,935	12,491,024
Interest Due and Accrued on Fixed Income Securities - Current Year	<u>0</u>	<u>458</u>	<u>1,022,651</u>
<b>Sub Total</b>	<b><u>23,756,745</u></b>	<b><u>38,689,201</u></b>	<b><u>16,208,506</u></b>
<b>Less:</b>			
Decrease in Amortization of Fixed Income Securities	0	0	0
Paid Accrued Interest on Fixed Income Securities	0	843,024	658,509
Realized Loss	4,511,323	10,460,532	21,298,654
Unrealized Loss	8,897,279	3,328,065	24,153,829
Custodial Fees Paid	0	0	0
Consultant Fees Paid	0	0	0
Management Fees Paid	0	0	0
Board Member Stipend	0	0	0
Interest Due and Accrued on Fixed Income Securities - Prior Year	<u>458</u>	<u>1,022,651</u>	<u>1,503,334</u>
<b>Sub Total</b>	<b><u>13,409,060</u></b>	<b><u>15,654,271</u></b>	<b><u>47,614,326</u></b>
<b>NET INVESTMENT INCOME</b>	<b><u>14,938,644</u></b>	<b><u>29,537,748</u></b>	<b><u>(23,710,808)</u></b>
<b>Income Required:</b>			
Annuity Savings Fund	309,529	487,012	683,312
Annuity Reserve Fund	637,948	636,448	535,498
Military Service Fund	213	68	154
Expense Fund	<u>872,696</u>	<u>903,250</u>	<u>960,684</u>
<b>TOTAL INCOME REQUIRED</b>	<b><u>1,820,386</u></b>	<b><u>2,026,778</u></b>	<b><u>2,179,648</u></b>
Net Investment Income	<u>14,938,644</u>	<u>29,537,748</u>	<u>(23,710,808)</u>
Less: Total Income Required	<u>1,820,386</u>	<u>2,026,778</u>	<u>2,179,648</u>
<b>EXCESS INCOME TO THE PENSION RESERVE FUND</b>	<b><u>\$13,118,258</u></b>	<b><u>\$27,510,970</u></b>	<b><u>(\$25,890,457)</u></b>

## Fall River Retirement System

### **STATEMENT OF ALLOCATION OF INVESTMENTS OWNED**

(percentages by category)

**FOR THE THREE-YEAR PERIOD ENDING DECEMBER 31, 2004**

	MARKET VALUE	PERCENTAGE OF TOTAL ASSETS	PERCENTAGE ALLOWED*
Cash	\$5,121,477	2.56%	100
Short Term Investments		0.00%	
Fixed Income Securities		0.00%	
Equities	52,350,786	26.12%	60*
Pooled Short Term Funds		0.00%	
Pooled Domestic Equity Funds	49,918,453	24.91%	60*
Pooled International Equity Funds	20,676,537	10.32%	5*
Pooled Global Equity Funds		0.00%	
Pooled Domestic Fixed Income Funds	72,337,732	36.10%	40 - 80
Pooled International Fixed Income Funds		0.00%	
Pooled Global Fixed Income Funds		0.00%	
Pooled Alternative Investment Funds		0.00%	
Pooled Real Estate Funds		0.00%	
Pooled Domestic Balanced Funds		0.00%	
Pooled International Balanced Funds		0.00%	
PRIT Cash Fund		0.00%	
PRIT Core Fund		0.00%	
<b>GRAND TOTALS</b>	<b><u>\$200,404,985</u></b>	<b><u>100.00%</u></b>	
* Total Equities Not To Exceed 60%, Including International Equities, Which Shall Not Exceed 5%			

For the year ended December 31, **2004**, the rate of return for the investments of the **Fall River** Retirement System was 8.10%. For the five-year period ended December 31, **2004**, the rate of return for the investments of the **Fall River** Retirement System averaged 1.63%. For the twenty-year period ended December 31, **2004**, since PERAC began evaluating the returns of the retirement systems, the rate of return of the investments of the **Fall River** Retirement System was 9.92%.

## **Fall River Retirement System**

### **SUPPLEMENTARY INVESTMENT REGULATIONS**

#### **FOR THE THREE-YEAR PERIOD ENDING DECEMBER 31, 2004**

The **Fall River** Retirement System submitted the following supplementary investment regulations, which were approved by PERAC on:

August 9, 2005

16.08 In accordance with PERAC Investment Guideline 99-2, the Fall River Retirement Board will be transferring a portion of the assets currently invested in SsgA's Bond Market Index Fund into SsgA's Treasury Inflation Protected Securities (TIPS) Index Fund. This would provide diversification benefits to the Board as well as protection against rising inflation. The Board has had a satisfactory relationship with SsgA for fixed income index management, it is satisfied that there is no lower-cost or better-performing product available in the market, and feels that it would be administratively cumbersome to have a separate manager for this portion of the fixed income mandate.

December 20, 2004

16.08 In accordance with PERAC Investment Guideline 99-2, the Fall River Retirement Board is authorized to modify its equity mandate with RhumbLine Advisors by investing in that firm's Russell 1000 Index product as well as its previously-approved Small Cap Index product. Funds for this investment will come from the proceeds of two actively managed large cap accounts run by Freedom Capital Management. These accounts have been terminated by the Board as a result of poor investment performance.

November 6, 2003

16.08 In accordance with PERAC Investment Guideline 99-2, the Fall River Retirement Board is authorized to make a minor modification to its large cap equity account with Freedom Capital Management Company. Some of the assets currently invested in the Freedom Equity Style Fund will be transferred into the Freedom Concentrated Style Fund, which is a "best ideas" version of the former fund, with the same investment universe, benchmark, and portfolio management team.

Also in accordance with Guideline 99-2, the Board's fixed income mandate with Freedom Capital is being changed from separate account management to a commingled fund, the Freedom Core Plus Fixed Income Fund, in order to obtain structural efficiency and improve portfolio flexibility.

March 16, 2000

16.08 The Fall River Retirement Board may modify its fixed income mandate with Freedom Capital Management in accordance with PERAC Investment Guideline 99-2. At the manager's discretion, up to 25% of the account may be invested on an opportunistic basis in high yield securities. The board has had a satisfactory relationship with Freedom Capital as its domestic fixed income manager since 1995 and the manager has recently hired an experienced professional to upgrade its capability in the high-yield area.

## **Fall River Retirement System**

### **SUPPLEMENTARY INVESTMENT REGULATIONS (Continued)**

#### **FOR THE THREE-YEAR PERIOD ENDING DECEMBER 31, 2004**

##### August 22, 1996

- 20.03(1) Equity investments shall not exceed 60% of the portfolio valued at market, including international equities, which shall not exceed 5% of the portfolio valued at market.
- 20.04(1) All investments shall consist of recognized quality marketable securities issued by: United States based corporations and equities of foreign corporations.
- 20.07(5) Equity investments shall be made only in securities listed on a United States stock exchange, traded over the counter in the United States, or listed and traded on a foreign exchange.

##### September 7, 1995

- 20.03(2) At least 40%, but no more than 80%, of the total portfolio valued at market shall consist of fixed income investments with a maturity of more than one year, including Yankee Bonds and Eurobonds, which shall be limited to 12% of the total fixed income portfolio valued at market.
- 16.02(4) The Board may employ a custodian bank and may charge such expenses against earned income from investments, provided that such expenses shall not exceed in any one year .08% of the value of the fund.

##### November 19, 1993

- 20.04(6) American Depositary Receipts denominated in U.S. currency and listed on the New York Stock Exchange, provided that the total of all such investments shall be considered part of the Board's equity allocation and shall not exceed 10% of the total market value of the portfolio.
- 20.06(8) Purchases and sales of fixed income investments with maturities exceeding one year shall not exceed 200% of the market value of all fixed income obligations in any twelve-month period, excluding cash and short-term obligations.
- 20.07(6) Purchases and sales of equity investments shall not exceed 100% of the average market value of all equity holdings in any twelve-month period.

## **Fall River Retirement System**

### **NOTES TO FINANCIAL STATEMENTS**

**FOR THE THREE-YEAR PERIOD ENDING DECEMBER 31, 2004**

#### **NOTE 1 - THE SYSTEM**

The plan is a contributory defined benefit plan covering all **Fall River** Retirement System member unit employees deemed eligible by the retirement board, with the exception of school department employees who serve in a teaching capacity. The Teachers' Retirement Board administers the pensions of such school employees.

Instituted in 1937, the System is a member of the Massachusetts Contributory Retirement System and is governed by Chapter 32 of the Massachusetts General Laws. Membership in the plan is mandatory immediately upon the commencement of employment for all permanent, full-time employees.

The system provides for retirement allowance benefits up to a maximum of 80% of a member's highest three-year average annual rate of regular compensation. Benefit payments are based upon a member's age, length of creditable service, level of compensation, and group classification.

Members become vested after ten years of creditable service. A superannuation retirement allowance may be received upon the completion of twenty years of service or upon reaching the age of 55 with ten years of service. Normal retirement for most employees occurs at age 65 (for certain hazardous duty and public safety positions, normal retirement is at age 55).

A retirement allowance consists of two parts: an annuity and a pension. A member's accumulated total deductions and a portion of the interest they generate constitute the annuity. The differential between the total retirement benefit and the annuity is the pension. The average retirement benefit is approximately 75 - 85% pension and 15 - 25% annuity.

Active members contribute either 5, 7, 8, or 9% of their gross regular compensation. Members joining the retirement system after January 1, 1979 must contribute an additional 2% on regular compensation earned at a rate in excess of \$30,000. The percentage rate is keyed to the date upon which an employee's membership commences. These deductions are deposited in the Annuity Savings Fund and earn interest at a rate determined by the Executive Director of PERAC according to statute. When a member's retirement becomes effective, his/her deductions and related interest are transferred to the Annuity Reserve Fund. Any cost-of-living adjustment granted between 1981 and 1997 and any increase in other benefits imposed by state law during that period are borne by the state.

The pension portion of any retirement benefit is paid from the Pension Fund of the System. The governmental unit employing the member must annually appropriate and contribute the amount of current year pension payments as indicated on the most recent funding schedule as approved by PERAC's Actuary. Until recently, retirement systems were paying only the actual retirement benefits that were due each year.



## **Fall River Retirement System**

### **NOTES TO FINANCIAL STATEMENTS (Continued)**

#### **FOR THE THREE-YEAR PERIOD ENDING DECEMBER 31, 2004**

##### **NOTE 1 - THE SYSTEM (Continued)**

Systems had no statutory authorization to put aside any money for the future benefits of employees who are now working. Large unfunded liabilities resulted from operating upon this pay-as-you-go basis. In 1977, legislation authorized local governments to appropriate funds to meet future pension obligations.

In 1983, additional legislation was passed requiring the transfer of investment earnings (in excess of the amount credited to member accounts) into the Pension Reserve Fund. These initiatives have significantly reduced the rate of growth of the retirement systems' unfunded liabilities, and in some systems have actually eliminated such liability.

Administrative expenses are funded through investment income of the system.

Members who become permanently and totally disabled for further duty may be eligible to receive a disability retirement allowance. The amount of benefits to be received in such cases is dependent upon several factors including: whether or not the disability is work related, the member's age, years of creditable service, level of compensation, veteran's status, and group classification.

Employees who resign from service and who are not eligible to receive a retirement allowance or are under the age of 55 are entitled to request a refund of their accumulated total deductions. In addition, depending upon the number of years of creditable service, such employees are entitled to receive either zero (0%) percent, fifty (50%) percent, or one hundred (100%) percent of the regular interest which has accrued upon those deductions. Survivor benefits are extended to eligible beneficiaries of members whose death occurs prior to or following retirement.

##### **NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES**

The accounting records of the System are maintained on a calendar year basis in accordance with the standards and procedures established by the Executive Director of Public Employee Retirement Administration Commission.

The Annuity Savings Fund is the fund in which members' contributions are deposited. Active members contribute either 5, 7, 8, or 9% of their gross regular compensation. Voluntary contributions, redeposits, and transfers to and from other systems, are also accounted for in this fund. Members' contributions to the fund earn interest at a rate determined by PERAC. Interest for some members who withdraw with less than ten years of service is transferred to the Pension Reserve Fund. Upon retirement, members' contributions and interest are transferred to the Annuity Reserve Fund. Dormant account balances must be transferred to the Pension Reserve Fund after a period of ten years of inactivity.

## Fall River Retirement System

### NOTES TO FINANCIAL STATEMENTS (Continued)

#### FOR THE THREE-YEAR PERIOD ENDING DECEMBER 31, 2004

##### NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES (Continued)

The Annuity Reserve Fund is the fund to which a member's account is transferred upon retirement from the Annuity Savings Fund and Special Military Service Credit Fund. The annuity portion of the retirement allowance is paid from this fund. Interest is credited monthly to this fund at the rate of 3% annually on the previous month's balance.

The Special Military Service Credit Fund contains contributions and interest for members while on a military leave for service in the Armed Forces who will receive creditable service for the period of that leave.

The Expense Fund contains amounts transferred from investment income for the purposes of administering the retirement system.

The Pension Fund contains the amounts appropriated by the governmental units as established by PERAC to pay the pension portion of each retirement allowance.

The Pension Reserve Fund contains amounts appropriated by the governmental units for the purposes of funding future retirement benefits. Any profit or loss realized on the sale or maturity of any investment or on the unrealized gain of a market valued investment as of the valuation date is credited to the Pension Reserve Fund. Additionally, any investment income in excess of the amount required to credit interest to the Annuity Savings Fund, Annuity Reserve Fund, and Special Military Service Credit Fund is credited to this Reserve account.

The Investment Income Account is credited with all income derived from interest and dividends of invested funds. At year-end the interest credited to the Annuity Savings Fund, Annuity Reserve Fund, Expense Fund, and Special Military Service Credit Fund is distributed from this account and the remaining balance is transferred to the Pension Reserve Fund.

##### NOTE 3 - SUPPLEMENTARY MEMBERSHIP REGULATIONS

The **Fall River** Retirement System submitted the following supplementary membership regulations, which were approved by PERAC on:

December 13, 1991

To allow provisional employees to have deductions for retirement effective with actual starting date of employment.

## Fall River Retirement System

### NOTES TO FINANCIAL STATEMENTS (Continued)

#### FOR THE THREE-YEAR PERIOD ENDING DECEMBER 31, 2004

##### NOTE 3 - SUPPLEMENTARY MEMBERSHIP REGULATIONS (Continued)

February 27, 1992

To allow permanent 20-hour employees to establish membership in the System.

May 9, 1995

Creditable service for all part-time employees who are members shall be pro-rated according to the following formula:

Number of days worked

Full Week x 12 = creditable service

Example:

30 hours

40 hours x 12 = 9 months creditable service

## **Fall River Retirement System**

### **NOTES TO FINANCIAL STATEMENTS (Continued)**

#### **FOR THE THREE-YEAR PERIOD ENDING DECEMBER 31, 2004**

##### **NOTE 4 - ADMINISTRATION OF THE SYSTEM**

The System is administered by a five person Board of Retirement consisting of the City Auditor who shall be a member ex officio, a second member appointed by the governing authority, a third and fourth member who shall be elected by the members in or retired from the service of such system, and a fifth member appointed by the other four board members.

Ex officio Member: Douglas Fiore

Appointed Member: Anthony Cordeiro                      Term Expires: At discretion of Mayor

Elected Member: Joseph Almeida                      Term Expires: 12/31/05

Elected Member: David Machado                      Term Expires: 12/11/07

Appointed Member: Arthur Viana                      Term Expires: 1/27/06

The Board members are required to meet at least once a month. The Board must keep a record of all of its proceedings. The Board must annually submit to the appropriate authority an estimate of the expenses of administration and cost of operation of the system. The board must annually file a financial statement of condition for the system with the Executive Director of PERAC.

The investment of the system's funds is the responsibility of the Board. All retirement allowances must be approved by the Retirement Board and are then submitted to the PERAC Actuary for verification prior to payment. All expenses incurred by the System must be approved by at least two members of the Board.

The following retirement board members and employees are bonded by an authorized agent representing a company licensed to do business in Massachusetts as follows:

Treasurer - Custodian:	)	MACRS policy:
Ex officio Member:	)	
Elected Member:	)	\$ 1,000,000 Fidelity Bond
Appointed Member:	)	\$ 50,000,000 Fiduciary Liability
Staff Employees:	)	

## Fall River Retirement System

### NOTES TO FINANCIAL STATEMENTS (Continued)

#### FOR THE THREE-YEAR PERIOD ENDING DECEMBER 31, 2004

#### NOTE 5 - ACTUARIAL VALUATION AND ASSUMPTIONS

The most recent actuarial valuation of the System was prepared by the Public Employee Retirement Administration Commission as of January 1, 2004.

The actuarial liability for active members was	\$158,204,560
The actuarial liability for retired and inactive members was	<u>191,503,070</u>
The total actuarial liability was	<b>349,707,630</b>
System assets as of that date were	<u>208,579,459</u>
The unfunded actuarial liability was	<b><u>\$141,128,171</u></b>
 The ratio of system's assets to total actuarial liability was	 59.6%
As of that date the total covered employee payroll was	<u>\$60,205,440</u>

The normal cost for employees on that date was 7.9% of payroll

The normal cost for the employer was 6.0% of payroll

The principal actuarial assumptions used in the valuation are as follows:

**Investment Return:** 8.25% per annum

**Rate of Salary Increase:** varies per annum

#### GASB STATEMENT NO. 25, DISCLOSURE INFORMATION AS OF:

Actuarial Valuation Date	Actuarial Value of Assets ( a )	Actuarial Accrued Liability ( b )	Unfunded AAL (UAAL) ( b-a )	Funded Ratio ( a/b )	Covered Payroll ( c )	UAAL as a % of Cov. Payroll ( (b-a)/c )
1/1/2004	\$ 208,579,459	\$ 349,707,630	\$ 141,128,171	59.6%	\$ 60,205,440	234.4%
1/1/2001	\$ 218,685,230	\$ 269,517,661	\$ 50,832,431	81.1%	\$ 57,900,220	87.8%
1/1/1999	\$ 201,384,418	\$ 263,664,168	\$ 62,279,750	76.4%	\$ 50,903,272	122.3%
1/1/1997	\$ 141,033,895	\$ 231,255,666	\$ 90,221,771	61.0%	\$ 46,693,967	193.2%
1/1/1995	\$ 104,022,586	\$ 185,547,867	\$ 81,525,281	56.1%	\$ 43,010,962	189.5%

## Fall River Retirement System

### NOTES TO FINANCIAL STATEMENTS (Continued)

**FOR THE THREE-YEAR PERIOD ENDING DECEMBER 31, 2004**

#### NOTE 6 - MEMBERSHIP EXHIBIT

<b>Retirement in Past Years</b>	<b>1995</b>	<b>1996</b>	<b>1997</b>	<b>1998</b>	<b>1999</b>	<b>2000</b>	<b>2001</b>	<b>2002</b>	<b>2003</b>	<b>2004</b>
Superannuation	21	38	31	27	43	36	48	144	50	25
Ordinary Disability	3	7	2	2	0	0	5	2	1	2
Accidental Disability	5	6	9	10	7	7	10	11	6	7
<b>Total Retirements</b>	<b>29</b>	<b>51</b>	<b>42</b>	<b>39</b>	<b>50</b>	<b>43</b>	<b>63</b>	<b>157</b>	<b>57</b>	<b>34</b>
Total Retirees, Beneficiaries and Survivors	1,457	1,458	1,457	1,395	1,457	1,460	1,484	1,599	1,520	1,492
<b>Total Active Members</b>	<b>1,882</b>	<b>1,897</b>	<b>2,008</b>	<b>2,048</b>	<b>2,064</b>	<b>2,106</b>	<b>2,092</b>	<b>1,949</b>	<b>1,845</b>	<b>1,867</b>
<b>Pension Payments</b>										
Superannuation	\$7,360,567	\$7,316,279	\$7,886,402	\$7,739,197	\$7,964,240	\$8,322,720	\$8,647,261	\$9,936,712	\$11,364,174	\$11,803,328
Survivor/Beneficiary Payments	738,749	748,949	795,384	801,971	836,392	910,292	956,214	1,126,765	1,164,677	1,313,587
Ordinary Disability	357,618	389,464	397,033	403,911	384,738	383,599	393,416	376,031	406,052	444,483
Accidental Disability	3,074,758	3,154,158	3,241,858	3,427,352	3,578,210	3,861,877	3,941,076	4,260,634	4,445,253	4,502,030
Other	<u>1,800,940</u>	<u>1,894,330</u>	<u>1,892,944</u>	<u>2,023,012</u>	<u>2,152,618</u>	<u>2,235,345</u>	<u>2,390,829</u>	<u>2,165,056</u>	<u>3,136,217</u>	<u>2,780,436</u>
<b>Total Payments for Year</b>	<b><u>\$13,332,632</u></b>	<b><u>\$13,503,180</u></b>	<b><u>\$14,213,621</u></b>	<b><u>\$14,395,444</u></b>	<b><u>\$14,916,196</u></b>	<b><u>\$15,713,833</u></b>	<b><u>\$16,328,797</u></b>	<b><u>\$17,865,197</u></b>	<b><u>\$20,516,374</u></b>	<b><u>\$20,843,863</u></b>

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